PEPSI-COLA COMPANY

Annual Report

1946

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Pepsi-Cola Company

March 27, 1947

To the Stockholders:

The year 1946 was another year of sugar rationing and controls for industrial users, and, therefore, continued the succession of years of limited sales and consequently limited profits. In spite of this, your Company continued to hold its position in the industry, not only as to consumer acceptance and demand for its product, but as to its high standard of quality and consumer good will. Furthermore, its new product, Evervess Sparkling Water, was introduced in many territories with considerable consumer acceptance.

However, the worst years of sugar rationing are now behind us. Starting with 1947 more sugar is now available, and sugar quotas will be materially increased with some hope of rationing being completely removed later in the year.

FINANCIAL REVIEW

There is presented herewith a review of the operations of your Company and subsidiaries for the year 1946, together with a Consolidated Balance Sheet at December 31, 1946, and a summary of Consolidated Income and Earned Surplus for the year then ended, certified by Haskins & Sells, independent certified public accountants.

NET INCOME AFTER ALL TAXES

After providing for all taxes in the United States and foreign countries, the net income of the Company for the year 1946 was $6,266,728, or approximately $1.09 per share on the present outstanding capital stock. This compares with $5,152,309, or approximately $.90 per share in the year 1945.

OPERATING NET PROFIT

The consolidated net profit after all charges and expenses, but before deductions of reserves for United States and Foreign income taxes for the year 1946, was approximately $10,034,731, as compared to $10,845,931 for the year 1945.

There is listed below a continuation of the table of comparisons which we have published in previous annual reports of the operating net profit of the old Pepsi-Cola Company and its subsidiaries for the year 1936 through 1940, and for the present Pepsi-Cola Company since that time. The table below is based on net profits after deducting all charges and expenses, but before the deduction of reserves for United States and foreign income taxes:

1936	$ 2,083,597.57
1937	3,224,625.72
1938	4,027,513.92
1939	5,952,602.39
1940	8,520,582.31
1941	14,949,335.65
1942	14,863,011.76
1943	12,712,939.02
1944	13,122,492.84
1945	10,845,931.54
1946	10.034,730.92

OPERATIONS DURING 1946

In spite of the termination of the war, the year 1946 continued to be a war year for all practical purposes as far as the operations of your Company were concerned. This was due primarily to the extension of sugar rationing on the very restricted basis of 50% and 60% of the quantity used in the base year of 1941. Therefore, it is easy to understand why the volume of business for the year was limited. However, the worst is now over and your Company in 1947 will again commence its forward march which was temporarily held up by the war and sugar rationing. As mentioned above, supplies of sugar in the United States for 1947 will be

good, quotas have already been increased, and rationing may be completely removed by the end of the year. The year 1947, therefore, should show improvement in sales and earnings.

Due to the increase in all costs, including that of sugar, the price of Pepsi-Cola concentrate to our bottlers, has been raised slightly, and our suggested price to the consumer in the retail stores is now 6 cents a bottle. The big 12-ounce bottle of Pepsi-Cola at 6 cents is still lower than most, if not all, of its competitors. This price increase, which is only 20% over the price of Pepsi-Cola in 1940, is a very small one compared to the average increase in the price of sugar of 86% over the same period, and compared to the increase in the prices of most sugar-containing products such as candies, jams, jellies, and the like.

It is hoped that it will be only a short time before sugar will be again in full supply, its price returned to normal, and Pepsi-Cola in the big 12-ounce bottle will be again selling at 5 cents.

CUBAN SUGAR COMPANY:

The Cuban sugar crop for the year 1946 was somewhat better than that of the previous year. As a result, the production of sugar by your Company's wholly-owned subsidiary, Compania Ingenios Azucareros Matanzas, S. A. in Central Espana, Cuba, was 51,757 tons as compared to 47,215 tons in 1945. The earnings of this subsidiary were, therefore, somewhat better than those of the previous year. Various improvements have been made in the physical properties, and the Company is proceeding with its program to make this plantation one of the most efficient and economical in Cuba.

GEORGE WALKER
General Manager of Compania Ingenios Azucareros Matanzas, S. A.

The 1947 crop of the Cuban subsidiary appears at this time to be one of the largest ever produced by that company and is estimated at around 85,000 tons. It is, therefore, expected that the income from this subsidiary will show considerable improvement for the year 1947.

The officers of your Company hope that 1947 will see the end of the present control of sugar in Cuba, that it will no longer be necessary to sell to the Cuban Government the sugar produced by this subsidiary and that in a free market it will be possible to sell it directly to the parent Pepsi-Cola Company and some of its bottlers along the eastern seaboard.

EVERVESS already in demand in U. S. Capitol

Evervess Sparkling Water:

At different periods during the year production of Evervess Sparkling Water was commenced in a number of franchised bottling plants. At the present time Evervess is on sale in 160 franchised territories, and additional bottlers will start to market it in 1947.

Evervess has been specially well received by the public. It is an excellent sparkling table water sold in the large 12-ounce bottle for 5 cents. It is manufactured by a process which includes filtration and purification of the water and the additional safeguard of passing the water through a specially constructed tank under high-powered ultra-violet ray lamp. Evervess Sparkling Water is a superior water and the price of 5 cents for a 12-ounce bottle is below the price of other nationally advertised brands of sparkling water.

Your Company is about to inaugurate a national advertising campaign on Evervess which it has refrained from doing until there was greater national distribution.

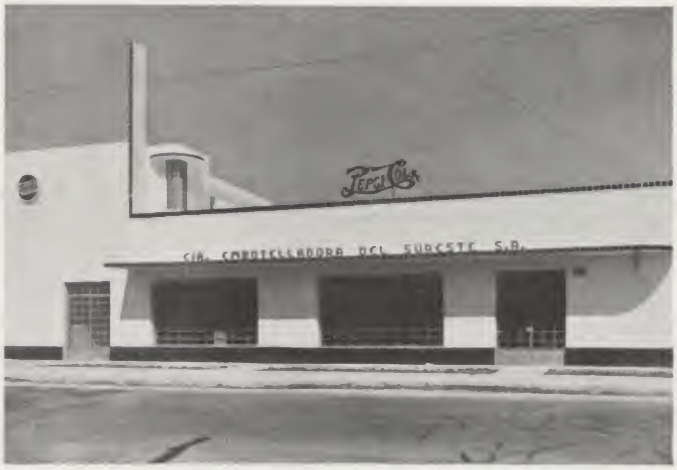
New Pepsi-Cola Bottle:

The new Pepsi-Cola bottle with the permanent color-applied label was produced for the first time in quantity in 1946. At the present time approximately 210 bottlers have converted to this new bottle. The conversion for all our bottlers will take at least two more years due to the limited production facilities and the large quantity of bottles required by our bottlers in order to be completely converted.

This new bottle with the colors on the label baked into the glass makes a new and most attractive package. It eliminates all paper labels and glue and has been most enthusiastically received by the retail merchant and consumer. We believe it is the best looking bottle on the market today.

Foreign Markets:

The following new foreign plants commenced operations during 1946: Culiacan, Merida and Puebla in Mexico; Guayaquil, Ecuador; Manila, Philippine Islands; Aschaffenburg, Germany; Kobe and Yokohama in Japan, and the Island of Guam.



Pepsi-Cola's new franchised bottling plant at Merida, Yucatan, Mexico

Hundreds of applications for foreign franchises have been received and the Company is actively surveying these territories. They will be allocated to new bottlers just as soon as machinery and equipment can be procured. A number of these franchised territories will be opened and operations commenced in 1947. The opening of these new foreign territories will increase rapidly from now on as the companies manufacturing bottling machinery catch up with orders placed by these prospective bottlers some time ago.

PLANS FOR 1947

The officers of your Company are preparing to resume the forward march of Pepsi-Cola on the termination of sugar rationing. With this in view, a new sales training course has been worked out with the LaSalle Extension University and been made available to all sales personnel of your Company and its bottlers, both in the United States and Canada. In addition, sales conferences are being held frequently throughout the country. Production and delivery facilities are being carefully studied and plans laid for the return of normal conditions of supply so that all retail outlets can be constantly serviced and the public can obtain their favorite drink in quantity at all outlets.

Company-Owned Plants:

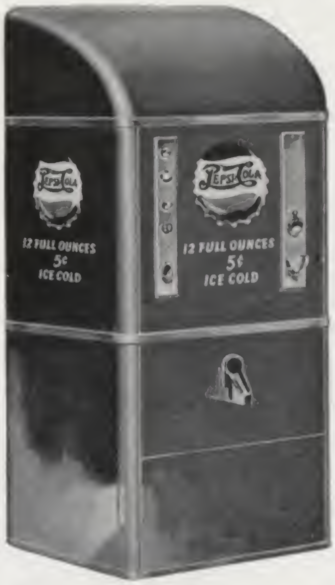
Company-owned plants have been maintained in good condition. However, additional machinery and equipment is needed to increase their manufacturing capacity. This will not require any sizable expenditures of money.

Within the next few months it is planned to open a new concentrate plant in Louisville, Kentucky for shipments of concentrate to the bottlers in the freight zones adjacent to this location. This new plant will also serve as an emergency plant in case of difficulty with the facilities of the main plant in Long Island City.

PEPSI-COLA AT THE FOUNTAINS:

The program for introduction of Pepsi-Cola at the soda fountains throughout the nation was temporarily halted during the war. There was no point in attempting to market it at the fountains when there was insufficient sugar to take care of our bottle goods sales. During this period, however, new fountain machinery, including a new style fountain dispensing unit, has been designed and manufactured. These new fountain units are now ready for distribution to our bottlers and the introduction of Pepsi-Cola syrup at the soda fountains throughout the nation can be commenced as soon as sugar supplies will allow. From present indications it is hoped that it will be possible to commence this program by the end of this year.

A new automatic cup vending machine for installation in theatres, railroad stations, factories, and other outlets, has been designed and should be ready for distribution at about the same time.



New Fountain Vending Machine

COMMUNITY ACTIVITIES

SCHOLARSHIPS:

The Pepsi-Cola Scholarship Board, consisting of ten outstanding educators and myself, has just concluded our third annual scholarship contest. This program provides for awards each year to high school seniors of over 700 scholarships, divided equally among every state in the union, including additional scholarships for Negroes in states having Negro educational systems. 121 of these scholarships are for attendance at any university with all tuition paid for four years and the balance of the scholarships are $50 cash awards to students on entrance to college.

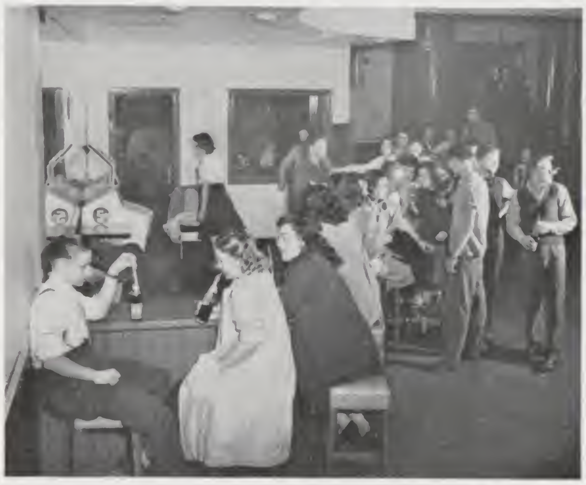
Your Company has been highly complimented on its foresight and wisdom in offering such a service to the community. It is the belief of your Company that this program will build a group of well-trained men and women who will owe their education to the big 12-ounce bottle, and will provide a stimulant for the advance-vancement of education throughout the Nation.

The stockholders will be interested to know that approximately 10,000 high schools and over 40,000 students in the United States have entered the competition for the year 1947.

Two Pepsi-Cola Students

SERVICEMEN'S CENTERS:

The Pepsi-Cola Servicemen's Centers, which were of such help to the enlisted men and women during the war, have been closed. The center under the big Pepsi-Cola sign in Times Square, New York City, has been remodeled and opened at the request of the City of New York as a lounge and service center for the personnel of the United Nations. Many of the foreign diplomats and personnel of these countries are, therefore, enjoying Pepsi-Cola and recognizing its goodness and quality for the first time.



One of the Junior Clubs in operation

JUNIOR CLUBS:

The four Junior Clubs for the benefit of the teen-age boys and girls who live in the heavily populated areas of New York City have been continued. These clubs have been most successful in keeping the youngsters off the streets and giving them clubs of their own where they may set up a self-governing system under the supervision of paid directors, and are a proving ground for the expansion of such ideas to other cities.

Art Competition:

The 1947 Pepsi-Cola Art competition for the production of the 1948 calendar is now under way. This contest, known as "Paintings of the Year", has become recognized as one of the outstanding annual art competitions. However, this year the paintings for the calendar will be chosen from the entire exhibition rather than from the twenty prize winners as heretofore. It is hoped that this method will result in a calendar which will be more in keeping with the desires of the Company. Mr. Roland McKinney, formerly director of the Los Angeles County Museum and the Baltimore Museum will continue to direct the competition.

* * * * *

It is with sincere regret that your Board of Directors reports the death of one of its members, Mr. David Podell. Mr. Podell for a long time had been interested in the welfare of the Company, both as a prominent lawyer and a substantial stockholder.

Mr. Mortimer Hays, a prominent attorney and a substantial stockholder was elected to fill the unexpired term caused by the death of Mr. Podell.

* * * * *

Your Company is in good, healthy and vigorous condition. The year 1947 should see the beginning of a new cycle in the affairs of your Company. It will mark the end of the war quotas and restrictions and the start of the growth of sales and earnings which had been temporarily suspended during those war years. Your Company looks forward with confidence to the years ahead.

Respectfully submitted,

Walter S. Mack, Jr.
President

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

ACCOUNTANTS' CERTIFICATE

PEPSI-COLA COMPANY:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its subsidiaries as of December 31, 1946 and the related summary of consolidated income and earned surplus for the year ended that date, have reviewed the accounting procedures of the companies (other than the Canadian subsidiary) and have examined the accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control. As to the Canadian subsidiary, we have examined a report of chartered accountants, and the figures included in the accompanying statements with respect to this subsidiary are derived from such report. The total assets of this subsidiary amount to approximately 8% of the consolidated total, and its gross profit on sales and net income for the year are approximately 5% and 8%, respectively, of the consolidated totals.

In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summary of consolidated income and earned surplus, with the footnotes thereon, fairly present the financial condition of the companies at December 31, 1946, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York,
March 27, 1947

PEPSI-COLA COMPANY

(Incorporated in Delaware)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1946

ASSETS

Current Assets:		
Cash on hand and demand deposits		$ 6,075,926.94
Notes and accounts receivable:		
Notes receivable	$ 34,404.21	
Accounts receivable:		
Customers	1,180,306.99	
Other	437,392.84	
Total	$1,652,104.04	
Less reserve for doubtful receivables	61,606.89	1,590,497.15
United States and Canadian Government obligations		174,623.13
Inventories (see Note 1):		
Finished and in-process	$1,487,584.07	
Raw materials and supplies	4,418,541.36	5,906,125.43
Total current assets		$13,747,172.65
Miscellaneous Assets:		
Special deposits on future equipment purchases	$ 223,472.07	
Notes and accounts receivable — not current	530,064.78	
Due from U. S. Government (tax refund)	555,651.26	
Real estate mortgage receivable	378,000.00	
Machinery held for resale	365,898.98	
Other	208,929.22	
Total miscellaneous assets		2,262,016.31
Property, Plant, and Equipment:		
Land, buildings, equipment, leasehold improvements, etc. — at cost (less reserve for depreciation and amortization, $4,724,489.44)	$9,056,751.44	
Bottles and cases on hand and with trade (at estimated depreciated values)	2,198,358.19	
Total property, plant, and equipment (net)		11,255,109.63
Deferred Debit Items:		
Prepaid insurance, taxes, etc.	$ 610,088.88	
Advertising materials and expenses	331,959.77	
Expenses applicable to 1947 sugar crop in Cuba	487,228.05	
Other	73,880.72	
Total deferred debit items		1,503,157.42
Trade-marks, Formulas and Goodwill (at nominal value)		1.00
Total		$28,767,457.01

PEPSI-COLA COMPANY
(Incorporated in Delaware)
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1946

LIABILITIES

Current Liabilities:			
Accounts payable and accrued		$2,585,490.73	
Accrued taxes — estimated (see Note 3):			
United States and foreign income and excess profits taxes	$3,726,946.95		
Less United States Treasury tax notes	2,046,100.00	1,680,846.95	
Other taxes		823,829.16	
Total current liabilities (exclusive of customers' deposits on bottles, cases, and other containers as stated in next item below)			$ 5,090,166.84
Customers' Deposits on Bottles, Cases, and Other Containers			1,150,353.71
Deferred Liability — Liens (Censos) on certain properties in Cuba			131,446.63
Reserves:			
General reserve (for contingent liabilities existing at July 31, 1939, for rentals on leases in excess of fair rental values as of that date, and for losses on settlement of such leases) — less $31,000.00 estimated to be payable within one year included in accounts payable and accrued — (see Note 4)		$ 434,961.91	
Reserve for contingent taxes, losses, etc.		2,801,771.28	
Total reserves			3,236,733.19
Capital Stock and Surplus:			
Capital stock — Authorized 7,500,000 shares of 33⅓¢ each; issued and outstanding 5,752,659.57 shares (including 655.80 shares in treasury — see below) (see Note 6)		$ 1,917,553.19	
Capital surplus (no change during year)		4,766,701.06	
Earned surplus (since August 1, 1939)		12,485,252.39	
Total		$19,169,506.64	
Less treasury stock (655.80 shares, at cost)		10,750.00	19,158,756.64

Notes 1 to 7 on the next pages following are an integral part of this balance sheet.

Total	$28,767,457.01

PEPSI-COLA COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1946

1. The inventories are stated at cost, representing average cost, except for certain ingredients for which cost is determined on the basis of first-in, first-out. Such cost was not in excess of market at December 31, 1946. In accordance with the accounting procedures followed by the companies, raw materials and supplies are charged to manufacturing and other expenses on the basis of such costs (and cost of goods sold is computed on the basis of the average manufacturing costs) without recognition in the income account of any market declines since such declines are ordinarily without effect upon the stabilized sales prices of their products. Where any such market declines are of material amount, however, it is the practice to provide a reserve therefor out of surplus for the purpose of conservative treatment in the balance sheet.

2. Foreign subsidiaries:

   The current assets and liabilities and the total assets and liabilities of foreign subsidiaries included in the consolidated balance sheet at December 31, 1946, are as follows:

	Current		*Total*	
	Assets	*Liabilities*	*Assets*	*Liabilities*
British subsidiary	$ 313,863	$ 21,272	$ 373,897	$ 35,291
Canadian subsidiary	1,823,839	435,977	2,222,307	435,977
Cuban subsidiaries	1,771,610	672,484	6,104,086	862,913
Mexican subsidiaries	100,090	28	224,692	134,090

   The assets and liabilities of these subsidiaries are included in the consolidated balance sheet on the following basis: the current assets and liabilities of the British and Canadian subsidiaries have been converted into United States dollars at the official rate of exchange at December 31, 1946, and those of the Cuban and Mexican subsidiaries at the current rate of exchange at that date; their other assets and liabilities have been included at amounts which reflect their United States dollar equivalent at the time of acquisition or origin.

   The withdrawal of funds of the British and Canadian subsidiaries is subject to presently prevailing foreign exchange restrictions.

3. The Federal income tax returns of the Company and domestic subsidiaries have been examined by the Treasury Department through the year 1943, and settlements made through the year 1940. The Treasury Department has proposed additional assessments against the Company and certain domestic subsidiaries for the years 1941, 1942 and 1943 aggregating $3,406,111.07, exclusive of interest. The principal changes proposed by the Treasury Department are being protested by the companies. The reserve for contingent taxes (which was increased during the current year by a transfer from the accrued tax account) has been provided to cover amounts which may eventually be payable in respect of prior years' income taxes, and is deemed by the Company to be adequate.

In addition to the foregoing undetermined matters, the Company filed an application for an increase in its excess-profits credit under relief provisions (Section 722) of the Internal Revenue Code. An agent of the Treasury Department has recommended rejection of the application but the Company is protesting this recommendation. However, since it is impossible to predict whether the Company will ever obtain any relief in this respect, no consideration has been given thereto in computing the tax liability for prior years.

4. In 1939 a general reserve in the amount of $3,000,000.00 was provided for known and unknown contingent liabilities existing at July 31, 1939, for rentals on leases of former Loft stores in excess of the approximate fair rental values as of that date of the premises covered by such leases, and for losses on settlement of such leases. As of July 31, 1940, based upon a review of the then known contingent liabilities and leasehold commitments, the Board of Directors increased the general reserve by a transfer thereto of $1,489,831.90 from capital surplus. Charges to the reserve from August 1, 1939 to December 31, 1946 amounted to $4,023,869.99, as shown below:

August 1, 1939 to December 31, 1945	$3,920,481.19
Year 1946	103,388.80
Total	$4,023,869.99

It is estimated that approximately $31,000 of the balance of $465,961.91 remaining in the reserve at December 31, 1946 may be applied within one year from that date, and therefore has been classified in the balance sheet as a current liability.

5. The Company, as custodian, maintains a special bank account (not reflected in the above balance sheet) for amounts received from Bottlers for payment to a supplier upon shipment of certain equipment ordered by Bottlers' customers. At December 31, 1946, the balance on deposit in this account was $254,167.41.

6. Pursuant to a resolution adopted at the annual meeting of stockholders held on April 26, 1944, the Company granted to Walter S. Mack, Jr., President of the Company, an option to purchase up to 45,000 shares of the authorized and unissued capital stock of the Company of the par value of 33⅓ cents each at $16⅞ per share. The option is subject to the provisions of an agreement dated July 12, 1944 and is exercisable in various amounts and at various times not later than May 26, 1949.

The Board of Directors of the Company has approved resolutions granting to other officers and employees options to purchase up to 58,547 shares of the unissued capital stock of the Company at $30¾ per share, subject to the approval of the stockholders at their next annual meeting.

7. An appeal by one of the Company's subsidiaries (in liquidation) to the United States Customs Court in connection with excessive customs duties paid has resulted in the court granting a refund of approximately $527,000. The Government has appealed this decision to the United States Court of Customs Appeals, and inasmuch as the matter is still pending, no part of the refund has been included in the accounts.

PEPSI-COLA COMPANY AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED INCOME AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1946

Gross Profit on Sales		$25,037,880.27
Advertising, Selling, Shipping, General and Administrative Expenses		15,241,950.86
Profit from Operations		$ 9,795,929.41
Other Income		392,594.20
Gross Income		$10,188,523.61
Income Charges		153,792.69
Net Income Before Deducting Provisions for Income Taxes		$10,034,730.92
Provisions for Income Taxes — Estimated:		
United States	$3,350,000.00	
Foreign	418,002.62	3,768,002.62
Net Income		$ 6,266,728.30
Earned Surplus, January 1, 1946		11,393,824.94
Total		$17,660,553.24
Dividends Paid — 90 cents a share (paid as follows: March 16, 17½ cents; June 15, 17½ cents; September 13, 17½ cents; December 14, 37½ cents)		5,175,300.85
Earned Surplus, December 31, 1946		$12,485,252.39

Notes:

1. The net income of subsidiaries in Canada, England, Cuba and Mexico amounting to $1,097,711.03 is included in the above consolidated net income. The income and expenses of the Canadian and British subsidiaries have been converted into United States dollars at the official rate of exchange at December 31, 1946, and those of the Cuban and Mexican subsidiaries at the current rate of exchange at that date, except as to the provision for depreciation which has been converted for all of the companies at rates prevailing at time of acquisition of the related assets.

2. The provision for depreciation charged to manufacturing and other expense accounts for the year 1946 amounted to $733,350.61.

DIRECTORS

James W. Carkner	Herbert M. Singer
Walter W. Colpitts	Harral S. Tenney
Mortimer Hays	Arthur T. Vanderbilt
Walter S. Mack, Jr.	Albert E. Winger

OFFICERS

Walter S. Mack, Jr.	*President*
Bryan Houston	*Executive Vice-President*
William B. Forsythe	*Vice-President*
Talbot O. Freeman	*Vice-President*
George M. O'Neil	*Vice-President*
Richard J. Ritchie	*Vice-President*
Milward W. Martin	*Secretary*
Joseph A. Murphy	*Treasurer*
Thomas E. O'Callaghan	*Asst. Secretary*
Thomas Elmezzi	*Asst. Vice-President*
Walter M. Furlow	*Asst. Vice-President*
William Geisler	*Asst. Vice-President*
Alfred B. Hoppe	*Asst. Vice-President*
Edward A. LeRoy, Jr.	*Asst. Vice-President*
Frederick C. Sebulske	*Asst. Vice-President*
Walter W. Masters	*Asst. Treasurer*

AUDITORS

Haskins & Sells
Certified Public Accountants

TRANSFER AGENTS

The Marine Midland Trust Company of New York
New York, N. Y.

The First National Bank of New Jersey
Jersey City, N. J.

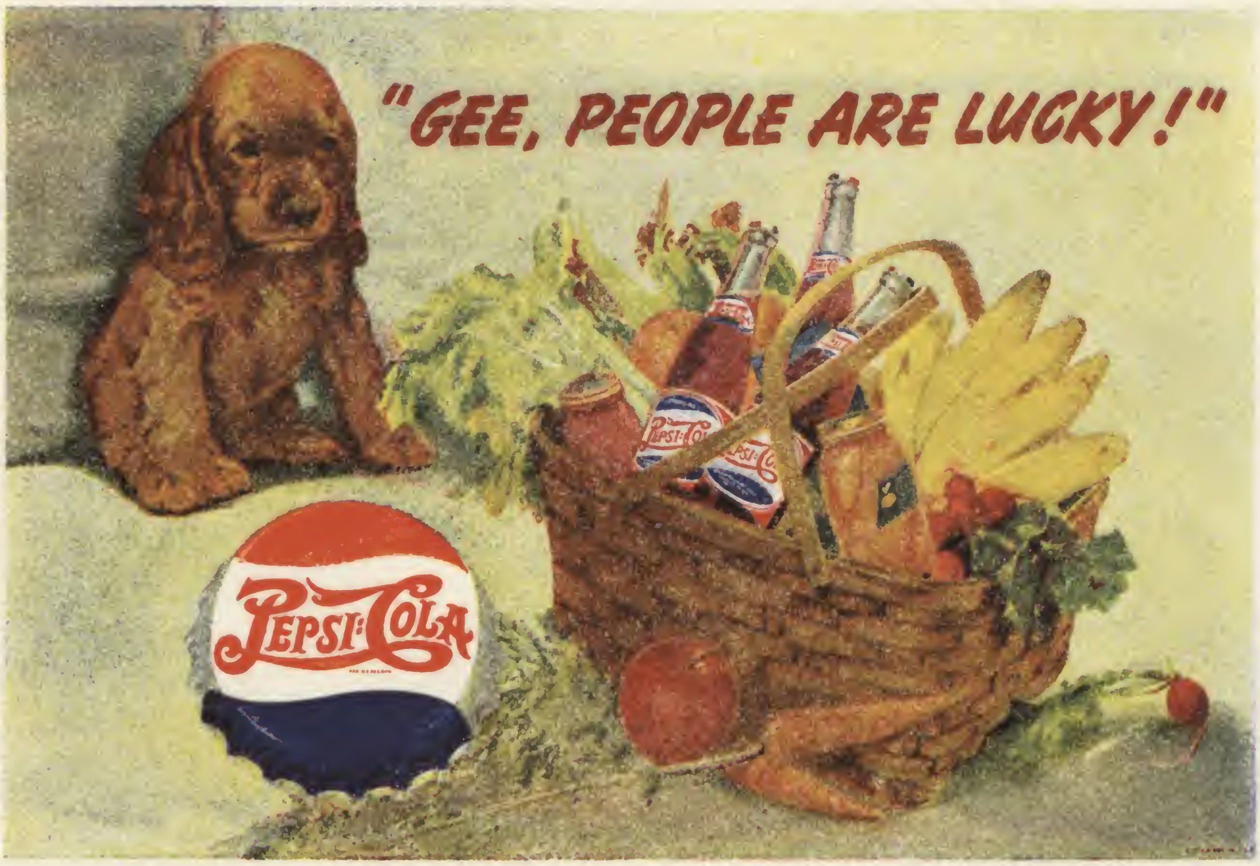
REGISTRAR

The Chase National Bank of the City of New York
New York, N. Y.

GENERAL OFFICE

47-51 33rd Street, Long Island City 1, N. Y.

*THIS ENTIRE REPORT WAS LAID OUT
AND PRINTED IN THE COMPANY'S OWN SHOP*



Pepsi-Cola

EVERVESS
SPARKLING
WATER